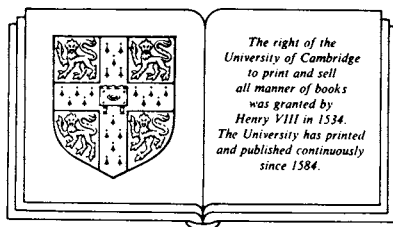


# BRITISH POLICY AND EUROPEAN RECONSTRUCTION AFTER THE FIRST WORLD WAR

ANNE ORDE

*Senior Lecturer in History,  
University of Durham*



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## *Introduction*

The first total war of the twentieth century lasted four and a quarter years. It covered almost the whole continent of Europe and theatres in the Near East and Africa, not to mention the high seas. It involved many millions of fighting men, claimed some eight million lives, engaged the economies of all the belligerent countries to an unprecedented degree, cost more than it had been thought any country's finances could bear, and introduced political and social upheaval. Europe bore the main brunt of the fighting, the casualties, the damage, and the direct and indirect costs: the task of reconstruction therefore mainly concerned Europe. The war also speeded the development of a trend that had started well before 1914, the growth of major centres of political and economic power outside Europe, above all in the United States. This development affected the task of reconstruction and helped to determine international economic (and to a lesser extent political) relations for the whole of the interwar period.

Later experience suggests that the task of reconstruction after the First World War was generally underestimated and misunderstood. This should not be particularly surprising. There were no precedents; the pre-1914 international system did not provide useful tools; the new political order being devised as a result of the war provided some fresh ideas, but it was not universally accepted. Europe did recover from the First World War, but unevenly; and some of the means used enhanced later difficulties.

This study is concerned with Britain's role, in conjunction with other countries, from the war to the late 1920s. Britain's position was singular. She was one of the major Allies, sharing responsibility for the peace settlement and the postwar world. She had suffered little material damage, but had lost trade and financial resources and was unable to make good the loss. She both needed the recovery of Europe and was expected to contribute largely to it; but her means were limited and her will hesitant. In the story that follows attention is focused largely on government policy making. So far as there could be any policy on reconstruction at all, it had

to be found by government and the central monetary authorities; and government was directly responsible for dealing with inter-governmental war debts and reparations, those interlinked questions that loomed so large in the international financial and economic scene of the period. Beyond this, despite continuing faith in the relatively free-market liberal capitalism of the nineteenth century, government support was looked for by all kinds of institutions involved in reconstruction. Support was sometimes given, sometimes refused; but some degree of government involvement proved almost inescapable. Private enterprise provided most of the resources. British banks and companies financed, insured, and shipped the trade of many countries. British investors put money into European loans and enterprises.<sup>1</sup> But there was no great expansion of involvement in Europe, and private enterprise was often reluctant to act on its own where the risks were great. Its role, in particular the attitudes and aspirations of bankers, form an important part of this story.

Ideas about reconstruction in Britain during the war were almost wholly concerned with domestic and imperial matters: such international schemes as were considered were based on the expectation of an inconclusive outcome, and so were irrelevant in the situation of 1918. Projects at the very end of the war for continuing, in a short transitional period, some of the Allied machinery of cooperation foundered on United States refusal to allow others any say in the use of American resources. Attempts, mainly French, to get a redistribution of costs and burdens among the Allies proved equally vain; and it was largely as a result of this failure that the French insisted on integral reparation by Germany. Britain bore as much responsibility as France for the unrealistic burden laid upon Germany. The Americans argued the drawbacks but would not give any inducement to others to demand less.

John Maynard Keynes's denunciation, in *The Economic Consequences of the Peace*, of the Big Four for indifference to economic problems was as extreme as the rest of his polemic.<sup>2</sup> The Four were certainly more at home with political and military questions, and the peace conference was not well organised to deal with matters outside the treaty terms; but the French did try to get financial questions considered as a whole; and the British, not least Keynes himself, put forward proposals for a combined policy on reconstruction. All were defeated at American hands. Whilst individual Americans understood the problems of reconstruction as well as any European, United States administrations of the period were firmly convinced both that the task ought to be left to private expertise and that Congress would never commit the taxpayer's money. It was this belief,

<sup>1</sup> Figures of trade, lending and investment are discussed in ch. 9.

<sup>2</sup> J.M. Keynes, *The Economic Consequences of the Peace*, London 1919, pp. 211–12.

coupled with a desire to avoid political engagements, that frustrated all attempts to enlist official American cooperation in reconstruction.<sup>3</sup> British governments largely shared this outlook, becoming involved only reluctantly; but they were more pragmatic; they needed international cooperation more than the Americans did; and the prevailing economic attitude was more internationalist.<sup>4</sup>

In the field of inter-governmental indebtedness Britain was both a debtor to the United States and a creditor of the continental Allies (and a net creditor overall). The governments led by Lloyd George and Bonar Law found it extremely difficult to decide on policy about war debts, and on relating debts and reparations. Except for a brief moment in the summer of 1920 they would not consider making common cause with their fellow debtors; but they neither succeeded in making common cause with their fellow creditors nor devised an effective independent policy. Until 1923 they waited for an American initiative that never came; and when they finally settled terms with the United States neither they nor their successors made much use of the resulting greater freedom of manoeuvre. On one occasion only, in the winter of 1921–2, did a British government take an initiative to bring all the problems of reconstruction, reparations, debts, the pacification of eastern Europe and the restoration of Soviet Russia to the international comity, into one comprehensive conference. That scheme was too vast to be brought off virtually single-handed: the Genoa conference failed to settle any of the problems it was called to discuss, leaving behind only a project for international central banking and monetary cooperation.

Britain's share in bringing about the provisional settlement of German reparations reached in 1924 was not decisive in itself but demonstrated what could be achieved by Anglo-American collaboration when the United States, from its own angle of interest, was prepared to become

<sup>3</sup> Recent American scholarship has overturned the traditional interpretation of reactionary isolationism in the 1920s and emphasises both, in the domestic area, the associationalism or corporatism of Republican policy-makers such as Herbert Hoover and, on the international front, their pursuit of economic cooperation and partnership. See, for example, Michael J. Hogan, *Informal Entente. The Private Structure of Cooperation in Anglo-American Economic Diplomacy 1918–1928*, Columbia, Mo. 1977; Ellis W. Hawley, ed., *Herbert Hoover as Secretary of Commerce. Studies in New Era Thought and Practice*, Iowa City 1981; Melvyn P. Leffler, 'American policy making and European stability 1921–1933', in *Pacific Historical Review*, 46 (1977), pp. 207–28; Melvyn P. Leffler, *The Elusive Quest. America's Pursuit of European Stability and French Security, 1919–1933*, Chapel Hill 1979; and, emphasising the continuity between the 1920s and the 1940s, Michael J. Hogan, *The Marshall Plan*, Cambridge 1987, Introduction. In some cases, seen from a British or European viewpoint, the picture of cooperation either envisaged or achieved seems overdrawn, but the general emphasis is useful.

<sup>4</sup> Robert D. Boyce, *British Capitalism at the Crossroads 1919–1932*, Cambridge 1987, emphasises in ch. 1 the preponderance of economic internationalism in this period.

involved effectively. Then American and British interests were sufficiently close for the settlement to be an Anglo-American one, imposed on France; and the settlement ushered in a few years of American investment in Europe, prosperity and greater political stability, when reconstruction seemed really to have worked.

As regards central and eastern Europe Britain could take some credit for pioneering, after initial reluctance to take any responsibility at all, a system of international financial reconstruction through the League of Nations. Britain provided much of the influence and British lenders nearly half the money for the League loans. They were intended for stabilisation: development was still regarded as a matter for purely private finance without guidance or blessing from other authorities; so their contribution to the economic well-being of the countries concerned was limited.

It is much clearer to historians than it was to the actors at the time that after the First World War (indeed already before it) Britain as a power was in relative decline. The 1920s were a transition decade, when in some respects Britain's power had been relatively enhanced by the outcome of the war, whilst in other respects the decline was manifest but might still be thought capable of being halted. The decline and its management are themes of the story that follows. Another theme is the limited capacity, conceptually and institutionally, of the liberal capitalist order for the task of reconstruction. In tracing the details of the decisions taken and the choices made, it is important not to lose sight of the underlying fact that the domestic and the international politics and economics of reconstruction were the products of the mental world of politicians, bankers, industrialists, and citizens. That world too was in transition in the 1920s, although not perhaps as fast as it ought to have been. This book is intended not least as a contribution to its understanding.